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SUBJECT: Scen setter for Transportation Secretary Mineta's India visit

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1. (SBU) Mr. Secretary, I want to welcome you to India, a vibrant, diverse, multiethnic, multifaceted democracy that is emerging as an economic powerhouse and has growing global ambitions. Your visit comes close on the heels of an extraordinarily successful visit of Secretary Rice, who unveiled a new U.S. policy for South Asia that explicitly seeks to strengthen India's role as a major world power in the 21st century. A decade of economic reforms has raised GDP growth to the 7-8 percent range, improved income levels, reduced poverty, and instilled increasing confidence within the country about its present and future international role. The quite visible benefits accruing from these reforms have created growing public support for more deregulation, liberalization and openness. Successive governments are moving these reforms forward, albeit within the political constraints imposed by India's vigorous and sometimes frustrating democratic system. Analysts predict several decades of sustained robust economic growth, thanks in part to India's youthful population and its technical and scientific prowess, which will lift India into the top ranks of global economic and political powers. One factor that may stymie India's growth and derail its ambitions would be if they fail to develop a world class transportation infrastructure. For strategic and economic reasons, we want to help India achieve these aspirations. The Indians realize we are critical to their goals, which gives us considerable leverage in shaping their regional and global actions.

A Strategic Partnership

2. (SBU) Your visit to India, the first ever by a U.S. Secretary of Transportation, is an important opportunity to

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advance the President's directive to add strategic focus to our bilateral relations, which have strengthened on virtually every front during the last four years. Today we consult regularly at the highest levels on political, economic, security, and global issues. Your visit is the third to India this year by a cabinet member. It follows the visits of Secretary Rumsfeld in January and Secretary Rice in March. There are several other cabinet visits scheduled for the balance of the year. We expect the Prime Minister to visit this summer and the President to visit sometime late this year or early next year. These high-level exchanges are evidence of our changed relationship. Our close coordination in responding to the December Tsunami and the ongoing Nepal crisis are other cases in point. Even when we disagree, as we did over Iraq, we are generally able to deal constructively with our differences, and move on.

3. (SBU) The keystone for our recent progress with India was Secretary Rice's visit, in which she proposed to the Indian leadership:

-- launching a Strategic Dialogue to discuss global security issues, India's defense requirements, defense co-production, and expanded high technology cooperation;

-- creating a working group to strengthen space cooperation;

-- revitalizing our Economic Dialogue; and

-- establishing a high-level Energy Dialogue to include civil nuclear cooperation.

4. (SBU) Your visit comes, therefore, at a time of unprecedented optimism about the US-India relationship. It will get heavy press attention both in Delhi and Bangalore. It will be an opportunity for us to deliver the message to the Indian public and the government that we want a strong and prosperous India. It will allow us to highlight to the Indian bureaucracy the economic benefits derived from a

strategic partnership with the US. While the focus of your visit will be the civil aviation sector and Open Skies, we should view it as an opportunity to advance our broader agenda of forging enduring institutional ties in surface transportation as well. In Delhi, we have requested meetings for you with the Prime Minister, the Civil Aviation Minister, the Minister for Shipping and Road Transport and Highways, and the Prime Minister's chief economic advisor, the Deputy Chairman of the Planning Commission. In Bangalore, you will get a flavor of the face of a new, emerging India, eager to integrate with the global economy and confident about its ability to compete because of its technical and scientific prowess.

15. (U) During your visit, you are scheduled to sign several agreements, which together will signal a new era in bilateral transportation cooperation:

-- Open Skies Agreement: The agreement was finalized in January after your meeting with the Indian Civil Aviation Minister. It is the only full Open Skies agreement that India has signed with any air services partner. It promises to benefit consumers and economies of both countries through cheaper flights, more choices, and faster services.

-- FAA Memorandum of Agreement: This agreement will allow FAA to engage in technical cooperation with Indian civil aviation authorities, and help broaden the US-India aviation relationship in air traffic management and control, safety, and airport systems.

-- Memorandum of Cooperation in Transportation Science and Technology: This MOC will signal the intention of both countries to undertake cooperation and collaboration in areas such as intermodal operations, transportation safety, intelligent transportation systems, rapid transit, and infrastructure financing.

-- Memorandum of Cooperation in Maritime Science and Technology: This MOC will signal the intention of both countries to undertake cooperation and collaboration in areas such as shipping and intermodal operations, port management, and maritime safety and security.

-- Aviation Cooperation Program (ACP) Launch: This is a unique public-private partnership designed to support cooperative activities in the area of training and technical assistance on aviation safety and efficiency.

The Economic Dialogue

16. (SBU) During its 10 months in power, the UPA government has moved on several economic issues of importance to us: it has finalized an Open Skies policy with us; it has strengthened its IPR regime; it has taken steps to resolve our bilateral irritants such as pressing state governments to settle disputes with American power producers, it has raised foreign direct investment limits in several sectors; and it has lowered tariff rates in sectors of importance to our industry. Another highly symbolic FDI legacy issue, the Dabhol dispute, which was complicated by the Enron collapse, is moving closer to resolution. We hope Boeing will soon be awarded a \$8.5 billion contract for sale of commercial aircraft to Air India. The principal tool we have used to strengthen the economic relationship is the US-India Economic Dialogue (ED). Last October, following the Prime Minister's visit to New York, we agreed that the ED, which had yielded uneven results, needed to be revitalized. The leadership of the ED has been elevated so that key issues can be lifted to the White House/Prime Minister's Office level. The five existing tracks of the ED -- Finance, Environment, Trade, Energy, and Commerce -- will remain because they are useful. Secretary Rice raised the profile of the Energy track, which may now be elevated to a stand-alone US-India Energy Dialogue. A new CEO's forum will be added to advise policy makers on what is required to remove structural impediments to greater trade and investment ties.

Economic Challenges

17. (SBU) The UPA government has developed an economic reform strategy that promotes private and foreign investment while seeking to deliver a greater share of the benefits of reform to India's rural and urban poor through various infrastructure, agriculture, education, and employment initiatives. It has pursued a line-of-least-resistance strategy with coalition partners, sacrificing to the leftist opposition overt privatization and labor market reform while moving rapidly forward with liberalization of the aviation, manufacturing, food processing, and IT sectors. The economic challenges the GOI must address are daunting. The chronic fiscal deficit headlines the macro-economic trouble spots. The combined federal-state deficit this year is expected to be \$54 billion, about 10 percent of GDP. It is

among the highest in the world. Interest payments on government debt consume nearly half the revenue received from taxes. Despite India's importance as an emerging market and its formidable scientific and technological accomplishments, poverty and illiteracy remain high, and HIV poses a threat.

Infrastructure

18. (SBU) Your visit will be an opportunity to highlight one of India's biggest goals -- the development of a world class physical infrastructure -- and to demonstrate our support for the country's efforts. Indian airports, road, railways, and ports are wholly inadequate to sustain the country's competitiveness in the global market place and threaten to thwart the country's aspirations of becoming a global economic and political power. Business, both domestic and foreign, consistently rates deficient infrastructure as its greatest obstacle. Successive governments have recognized this but failed due to inadequate political leadership. Ambitious plans have been drawn up in the past, but they have languished due to failure to mobilize the resources, lack of clarity of purpose, and poor implementation. Nor is the problem just one of lack of funds. There is enough private sector liquidity and interest to fund many large projects that are needed. The problem has been a culture that intrinsically believes that it is the responsibility of government to plan, build, and operate these projects. Capital markets are not sophisticated enough to channel the liquidity to fund large projects. India lacks a culture of private project finance. Nor is there a regulatory structure to ensure private investors of transparent and fair competition.

19. (SBU) There are signs that the UPA government has learned the lessons of the past and will do things differently. Prime Minister Manmohan Singh has made infrastructure one of his government's top priorities, and announced the goal of attracting \$150 billion in foreign direct investment to the sector. A government run by economists appears to understand the vital role of the private sector in infrastructure development but needs help in creating appropriate incentives. Singh's government has signaled its intention to build public-private partnerships in developing these projects. It is an open question whether India will be able to break from the habits of the past and address what everyone in the society believes is a pressing need. Merrill Lynch estimated last year that the country has a good chance of spending \$76 billion on infrastructure project under construction or in the pipeline within the next 3 years. One stark characteristic of this spending is the almost complete absence of American involvement. Your visit could induce American companies to take a second look at what may in the next decade be the sector of greatest commercial opportunity in India.

Civil Aviation

10. (SBU) The civil aviation sector is experiencing a period of profound restructuring, reform, and liberalization. The success of India's telecom sector has encouraged the GOI to identify civil aviation as the second sector of the economy to be opened up and deregulated. Civil aviation is a sector where reform and liberalization hold the least amount of political opposition and offer good prospects for meaningful benefits. A focus on this sector fits seamlessly with the high priority that the GOI and the Prime Minister, in particular, have placed on infrastructure development. In some ways radical reform of this sector was inevitable because the sector was close to collapse. In a stinging report, a government appointed aviation committee found the Indian civil aviation sector to be in crisis due to neglect, lack of investment and modernization, and growth in air traffic. The UPA government has begun to use the committee report as a road map for the sector and begun implementing its recommendation. It has within the last six months liberalized air services agreements, rolled out plans for privatization of airports, allowed private airlines to fly overseas, and is drawing up plans to establish an independent economic regulator.

11. (U) As a result of these reforms, the Indian civil aviation sector is experiencing robust growth, both on internal and external routes. Domestic traffic grew by 27 percent last year, and is expected to grow at a similar clip in the years ahead. The Civil Aviation Minister told us that he expects domestic traffic to double within in the next 3 years. To underscore his point he noted, with perhaps only a hint of exaggeration, that on domestic routes "every seat of every flight of every carrier to every city at every time is fully booked for months." The four existing domestic carriers are being joined by at least six other new entrants, many of them low cost carriers.

International traffic is growing at a similar pace. Established regional and European carriers such as Singapore Airlines, Emirates, Gulf, Thai, British, Lufthansa are fast expanding their services to India, sometimes to new and unlikely destinations such as Amritsar and Trinuchapali. Low cost regional carriers such as Air Asia and Tiger Airways are initiating service from South East Asia. Meanwhile India carriers are increasing their international flights as fast they can acquire or lease aircraft. Such growth is causing prices to tumble as choice and route selection increases. The growth in air traffic is particularly strong in the south where economic resurgence is creating a burgeoning demand for international air travel -- particularly to US cities. The US Consulate in Chennai issues enough visas each day to fill two or three 747s, and waitlists for flights to US destinations continue to grow.

12. (SBU) This growth comes with many challenges. Observers estimate that Indian airlines will purchase \$25 billion worth of aircraft in the next 20 years. Acquiring these aircraft is in some ways the easy part. The challenge for Indian civil aviation officials is to develop the physical and software infrastructure to service this surge in traffic. The Indian civil aviation infrastructure is unable to service even the existing traffic, let alone the projected growth. Even today, there are not enough overnight parking places in the major metropolitan airports, and many airplanes have to overnight at smaller cities. Metro airports are chaotic during rush hour with frequent aircraft delays and long lines for ticketing, baggage check-in, baggage pick-up, security screening. GOI officials have expressed strong concerns about the effect of such growth on safety and air traffic management. There are ominous shortages of pilots and other trained staff. The EU has in place a \$32 million dollar program to help support the upgrade of India's civil aviation sector. It has seconded experts to sit and work fulltime at the Indian civil aviation authority. Civil aviation authorities have frequently drawn our attention to us about the absence of American involvement. Your visit will and the agreements you sign -- the Open Skies agreement, the FAA Memorandum of Agreement and the Aviation Cooperation program -- will show our support for the sector and help neutralize some of the advantage that the EU has earned through many years of collaboration with the Indian civil aviation authority.

Aircraft procurements -----

13. (SBU) For the past several years, state-owned Air India and Indian Airlines have been in discussions with Boeing and Airbus for aircraft acquisitions which could total \$12 billion. In competitively bid tenders, Airbus won a \$2.1 billion dollar order to provide single aisle aircraft to India Airlines while Boeing won a \$1 billion order to supply 18 B737-800 airplanes to Air India. Air India is in the process of determining the winner of its \$8.5 billion tender for procuring 50 double aisle long haul aircraft of the A-340/A-330/B-777/B-7E7 class. Boeing has run an aggressive sales campaign which has positioned it well. You should signal our strong support for Boeing for this sale. The GOI's plan is to replenish the fleets of these two carriers to prevent this further slippage due to years of neglect and drift by the government. It hopes fleet expansion will help restore the carriers' financial strength and raise their value on the markets. The GOI then would likely float an IPO on the bourses before gradually privatizing them completely.

Conclusion -----

14. (U) In sum, you will come to India at a time when the President's goal of establishing a key strategic relationship is becoming reality. The new initiatives you announce during this visit will move us forward in building new habits of collaboration with one of the world's rising giants. My team looks forward to welcoming you to India and ensuring a successful visit.